US could blacklist Chinese tech firm Hikvision

The US administration is considering limits to Chinese video surveillance firm Hikvision's ability to buy US technology, the New York Times reported on Tuesday, deepening worries about trade frictions between the world's two top economies.

The move would effectively place Hikvision on a US blacklist and US companies may have to obtain government approval to supply components to Hikvision, the paper said.

The US Commerce Department blocked Huawei Technologies from buying US goods last week, effectively banning US companies from doing business with the Chinese firm, a major escalation in the trade war, saying Huawei was involved in activities contrary to national security. Hikvision and Dahua Technology which produce audio-visual equipment that can be used for surveillance were specifically cited in a letter to Trump's top advisers last month, signed by more than 40 lawmakers.

The lawmakers said China's actions in its western region of Xinjiang "may constitute crimes against humanity" and urged tighter US export controls to ensure that US companies are not assisting the Chinese government's crackdown there.

The group of signatories were led by US Senator Marco Rubio and US Representative Chris Smith on the Republican side and Senator Bob Menendez and Representative James McGovern on the Democratic side.

China has faced growing condemnation from Western capitals and rights groups for setting up facilities that UN experts describe as mass detention centers holding more than 1 million ethnic Uighurs and other Muslims. Hikvision shares opened 10% lower. (RTRS)

In this file photo, visitors pass by a booth for state-owned surveillance equipment manufacturer Hikvision at the Security China 2018 Expo in Beijing, China. (AP)

Market Movements 22-05-2019

			Change	Closing pts
AUSTRALIA	-	All Ordinaries	+13.70	6,598.10
EUROPE	-	Euro Stoxx 50	+0.21	3,386.72
GERMANY	-	DAX	+25.27	12,168.74
INDIA	-	Sensex	+140.41	39,110.21
JAPAN	-	Nikkei	+10.92	21,283.37
PAKISTAN	-	KSE 100	+1,195.04	34,637.14
PHILIPPINES	-	All Shares	+39.71	4,821.85
S. KOREA	-	KRX 100	+4.16	4,296.88

			Change	Closing pts
FRANCE	-	CAC40	-6.48	5,378.98

Business

Policymaker flags inflation target miss, trade war as key risks

Fed may cut rates if inflation keeps disappointing: Bullard

HONG KONG, May 22, (RTRS): Further weakness in inflation could prompt the US Federal Reserve to cut interest rates, even if economic growth maintains its momentum, James Bullard, President of the Federal Reserve Bank of St Louis, said on Wednesday.

The risk of the Fed missing its 2% inflation target and the trade war were two key macroeconomic challenges to the policy-setting Federal Open Market Committee (FOMC), he said in a presentation prepared for an audience at the Foreign Correspondents' Club (FCC) in Hong Kong.

The Fed held interest rates steady earlier in May, when Chairman Jerome Powell said there was "no strong case" for either a cut or hike in interest rates.

But Bullard said on Wednesday "a downward policy rate adjustment even with relatively good real economic performance may help maintain the credibility of the FOMC's inflation target going forward."

"A policy rate move of this sort may become a more attractive option if inflation data continue to disappoint," he said.

Bullard and Chicago Fed's Charles Evans, both voting members of the FOMC, have in recent days expressed concerns over the Fed's failure to meet its target. Bullard said on Wednesday that another 'low-side miss' is on the horizon in 2019.

Normalisation

Bullard said any policy adjustment going forward would be in response to incoming data, and not a continuation of the rate normalisation process which has stopped earlier this year after 225 basis points worth of hikes from near zero levels.

He remained upbeat about growth prospects.

Bullard drew comparisons with 2-1/2 decades ago – when rates were increased by 300 basis points between early 1994 and early 1995, and the economy still boomed during the second half of the 1990s – to stress that rate normalisation can be accomplished without damaging prospects for an extended period of growth.

The next FOMC meeting will convene on June 18.

Bullard expects agreements on trade will be reached in the near term, but warned that a failure to do so, with substantial barriers "erected and maintained," could alter "global trading patterns over the medium term".

These unresolved trade disputes and the below-target inflation "suggest that the FOMC needs to tread carefully in order to help sustain the economic expansion," he said.

Bullard said that from a macroeconomic perspective, China should agree to "everything that's being asked" in the negotiations because it would lead to a domestic economic boom. "They will establish credibility on trade inside China, and will reassure foreign investors that they can invest in China and be treated appropriately. If that occurs, I would see blue skies ahead for the Chinese economy," Bullard said.

"It's not just the US that's doubting Chinese credibility. Many global players all around the world have found that it's a difficult place to do business."

In an interview with Bloomberg TV earlier on Wednesday, Bullard said tariffs would have to stay on for "something like six months" with no prospect of a resolution in sight to weigh on Fed policy.

In his FCC remarks, he added China selling its large stock of US Treasuries was not "as big of a threat as it's being made out to be" as it would be hard to replace them with other assets.

UK inflation back above official target

Energy costs rise

LONDON, May 22, (AP): Inflation in Britain rose in April back above the Bank of England's target rate following an uptick in energy prices and airfares, official figures showed Wednesday.

The Office for National Statistics said that consumer prices in the year to April were up 2.1 percent, against 1.9 percent in March. That was slightly below expectations for a rise to 2.2 percent.

The main reasons behind the spike were higher energy costs and airfares, partly linked to increases in the price of oil. However, the later timing of Easter this year also had an impact.

Regardless of that Easter effect, there are growing expectations in the markets that the bank's rate-setting panel may look to raise interest rates again during the summer given that inflation has gone back above its 2 percent target and wage increases are running near decade-high rates. "Pay has been rising more quickly amid growing skill shortages in the jobs market, particularly in areas such as construction and hospitality," said James Smith, developed markets economist at ING.

The major reason why the rate-setting Monetary Policy Committee may refrain from raising the bank's main interest rate by a quarter-point to 1 percent is Brexit uncertainty, which is expected to weigh on output in coming months. Though Britain has been granted an extension to its departure from the European Union until Oct 31, uncertainty is set to persist, especially for businesses.

"The MPC is rightly reluctant to tweak policy while Brexit hangs over the economy like the Sword of Damocles," said Ben Brettell, senior economist at stockbrokers Hargreaves Lansdown.

However, the pound has fallen sharply in recent few weeks, and that's set to elevate inflation by raising the cost of imports. On Wednesday, it came under further pressure, trading down 0.3 percent at $1.2670 and near 2019 lows, as hopes faded that Prime Minister Theresa May will get Parliament to back her Brexit deal.

Instead, expectations are growing that May will be forced to quit soon and be replaced by a Brexit proponent such as Boris Johnson, the former foreign secretary, which would likely raise again the specter that the country could crash out of the EU without a deal. That is widely expected to cause a recession as tariffs go up on trade between the UK and the EU and other restrictions on business are imposed.

Sharp gains unlikely

UK housing market weathers Brexit clouds

LONDON, May 22, (RTRS): Britain's expensive housing market has so far weathered the uncertainty swirling around the country's planned departure from the European Union, but average prices are unlikely to rise sharply and will fall in London this year, a Reuters poll found.

Nearly three years ago Britons surprised most of the world when they voted to split from the EU, yet it is still unclear how, when or even if the two sides will part ways.

Prime Minister Theresa May said on Sunday she would make a final attempt to get her Brexit divorce deal through parliament before she leaves office, something she has failed to manage three times already.

With no resolution in sight, Brexit uncertainty has affected property prices in the capital – long a magnet for foreign speculators – as people have shied away from investing, despite a fall in sterling since the referendum making UK housing a relatively cheaper investment.

Real estate agent Foxtons, which focuses on the London market, said on Monday UK property sales were running at record lows due to the impact of Brexit on consumer confidence.

According to the May 10-21 Reuters poll, prices will drop 2.0% in London this year, the same median forecast given in a February survey.

Expensive

But that might not be a bad thing for buyers. When asked to describe the level of London house prices on a scale of 1 to 10 from extremely cheap to extremely expensive, the median response was 8.5, higher than in previous surveys. Nationally they were rated 6.0.

"It's the same old story - housing is cheap for those with some capital behind them, given low funding costs, but very expensive in terms of the income multiple," said Peter Dixon at Commerzbank.

The average annual British salary is about 30,000 pounds ($38,100) and yet the average asking price for a home in Britain was 308,290 pounds this month, and more than double that in London, property website Rightmove said.

For those already on the property ladder, borrowing money is cheap. The Bank of England has set Bank Rate at 0.75 percent and is not expected to raise it any time soon.

Looking nationally, over 80% of respondents to an extra question in the poll said the housing market had so far weathered the Brexit uncertainty and price rises are expected to prove fairly robust.

Home values will gain 1.2% nationally this year – lagging expectations for general inflation – 2.0% next year and 2.5% in 2021, the poll of 23 housing market watchers said.

"The UK market has remained remarkably resilient," said Russell Quirk at property website Vyomm. com. "So, just imagine the enormity of the 'happy-ending' that will prevail when the current political paralysis ends."

Economists in another Reuters poll conducted earlier this month said Britain would eventually agree a free trade deal with the EU and London home prices are expected to rise 1.0% next year and 2.5% in 2021.

However, as negotiations to leave the club Britain joined in 1973 have proved protracted it does not bode well for when talks over future deals with global partners need to be agreed. Over three-quarters of respondents to an additional question said the risks to their forecasts were to the downside.

"Whilst everyone is conscious of Brexit we face a further 2-3 years after the Brexit Agreement to deal with the so-called implementation phase," said independent buying agent Henry Pryor. "If you think getting the Withdrawal Agreement done was hard work, I expect you ain't seen nothing yet!"

Japan's exports contracts again

TOKYO, May 22, (RTRS): Japanese exports contracted for the fifth month in April due to a slump in shipments of chip-making equipment to China, underlining the growing threat to the world's third-biggest economy from a bruising Sino-US trade war.

Data also showed Japan's trade surplus with the United States rose for a second month as auto exports accelerated, which could draw US President Donald Trump's ire before US-Japan trade negotiations begin this week followed by a leaders' summit a few days later.

Trump's government is trying to renegotiate trade agreements with major economies to lower the US trade deficit and address what it considers to be unfair trade practices. That approach has set-off an intensifying tariff dispute between the United States and China - two major trading partners of Japan - in a blow to global businesses, trade and overall growth.

Washington's stance is doubly harmful to Japan because it has slammed the breaks on exports to neighbouring China and exposes the trade-reliant economy to curbs on its shipments of cars to the United States.

Optimistic

"Some Japanese companies are still optimistic about a resolution to recent trade friction, but the implications are quite serious," said Hiroshi Miyazaki, senior economist at Mitsubishi UFJ Morgan Stanley Securities.

"On one hand, we may reach a point where Japanese companies shift production from China or other places. On the other hand, Japanese policymakers need to make sure US-Japan trade stays out of the spotlight."

Ministry of Finance (MOF) data showed on Wednesday Japan's exports fell 2.4% in April from a year earlier, down for a fifth straight month. That compared with a 1.8% drop seen by analysts in a Reuters poll, and a similar 2.4% decline in March.

Exports to China fell 6.3% in April from a year earlier, down for the second consecutive month. The data also showed Japan's trade surplus with the United States rose 17.7% in April from a year earlier to 723.2 billion yen ($6.55 billion), partly led by an 8.3% increase in auto exports.

Lira slips

Turkey's shares hit two-year low

ISTANBUL, May 22, (RTRS): Turkey's lira slid nearly 1% on Wednesday and shares hit a two-year low on investor concerns about strains with Washington over Ankara's push to purchase a Russian missile system and the central bank's reversal of recent monetary tightening.

The lira weakened as far as 6.1105 against the dollar from Tuesday's close of 6.0585. At 1301 GMT, it stood at 6.0960. The BIST 100 share index was down 1.45% to its lowest since January 2017.

Defence Minister Hulusi Akar said late on Tuesday that Turkey was preparing for potential US sanctions over its purchase of Russian S-400 missile defence systems, even while he said there was some improvement in talks with the United States over buying F-35 fighter jets.

"We are seeing a negative movement specific to the lira today," one banker said.

"There is no negative mood abroad for now. However, with the central bank opening a repo auction yesterday and the news flow regarding the S-400s, the perception of the lira has been damaged again."

The lira has fallen nearly 13% so far this year partly over concerns about relations with the United States.

In this file photo, attendees look at the latest technology from Qualcomm at the China International Import Expo in Shanghai. Qualcomm's stock is tumbling before Wednesday's market opened on May 22 after a federal judge ruled that the company unlawfully stifled cellphone chip market competition and charged excessive licensing fees. (AP)

Judge rules Qualcomm violated antitrust law

Qualcomm's stock is tumbling before the opening bell after a federal judge ruled that the company unlawfully stifled cellphone chip market competition and charged excessive licensing fees.

US District Judge Lucy Koh in San Jose, California found Tuesday that Qualcomm violated antitrust law, charging high royalties and squeezing out rivals, according to a Wall Street Journal report. Koh ordered Qualcomm to negotiate or renegotiate licensing deals with customers. The San Diego company must also license its patents to rival chip makers at fair prices and can't sign exclusive supply agreements with smartphone makers like Apple that block competitors from access to that market.

Qualcomm Inc must submit to monitoring for the next seven years to make sure it follows the order.

Qualcomm said in a statement Wednesday that it will seek an immediate stay and appeal of the ruling.

"We strongly disagree with the judge's conclusions, her interpretation of the facts and her application of the law," Don Rosenberg, executive vice-president and general counsel of Qualcomm, said in a statement.

Last month Apple and Qualcomm settled a bitter financial dispute centered on some of the technology that enables iPhones to connect to the internet. (AP)

The deal requires Apple to pay Qualcomm an undisclosed amount. It also includes a six-year licensing agreement that likely involves recurring payments to the mobile chip maker.

Apple had already lost an earlier battle with Qualcomm in March when a federal court jury in San Diego decided the iPhone maker owed Qualcomm $31 million for infringing on three of its patents.

Shares of Qualcomm are down 12% in premarket trading. (AP)

More consumers looking to offload latest phones

Asian shops shun Huawei phone trade-ins

SINGAPORE/MANILA, May 22, (RTRS): Mobile phone retailers in some Asian countries are refusing to accept Huawei devices for trade-ins, as more consumers look to offload their device on worries Google suspending business with the Chinese firm will disrupt services.

Google has said it will comply with an order by US President Donald Trump to stop supplying Huawei, meaning current owners of Huawei phones face being cut off from updates of the Android operating system from late August. New phones will lose access to popular apps such as YouTube and Chrome.

Against this backdrop, some customers in Singapore and the Philippines have rushed to sell their Huawei phones, according to retailers and online marketplace data.

But there are few takers.

"If we buy something that is useless, how are we going to sell it?," said Dylan On, a salesman at Wanying Pte Ltd, a Singapore retail and repair shop.

"It's not that Huawei is a bad product. It's a very good product. It's just that nobody wants to buy it now because of US policy," he said, adding he was looking to sell existing Huawei stock online to overseas buyers in hopes they are less aware of current events.

Huawei did not respond to a request for comment.

The company has said it is developing its own phone software and it can still use an "open source" version of Android that lacks access to Google apps. Huawei also went ahead with a new phone launch in Britain on Tuesday, even as the number of users trading in their devices rose in Asia.

Previously, about five people a day were looking to trade in their Huawei phones, but that has jumped to 20 in the last two days, said Zack, a salesman at Mobile Square in Singapore who declined to give his last name.

"Normally, you would see people wanting to trade their old phones as they want to replace them with new ones," he added. "Now you're seeing people wanting to trade in the latest one."

Carousell, Singapore's most popular online marketplace, said the number of Huawei phone sales more than doubled the day the US order was announced.

Huawei smartphones had a 14 percent share of the Singapore market last year, according to research firm Canalys.

Mobile phone retailers in the Philippines are also staying away from Huawei products.

"We are no longer accepting Huawei phones. It will not be bought by our clients anymore," Hamida Norhamida, a saleswoman of new and used phones in Manila's Greenhills shopping centre told Reuters, adding that she felt relieved to have sold off her stock of Huawei P30 Pro ahead of Google's Monday announcement.